

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE BOARD OF PATENT APPEALS  
AND INTERFERENCES**

**Appeal number 2007-0325**

**Decided April 16, 2007**

|           |   |                   |   |                     |
|-----------|---|-------------------|---|---------------------|
| Applicant | : | Scott C. Harris   | ) | Group Art Unit 3624 |
|           |   |                   | ) |                     |
| App. No.  | : | 09/780,248        | ) |                     |
|           |   |                   | ) |                     |
| Filed     | : | February 9, 2001  | ) |                     |
|           |   |                   | ) |                     |
| For       | : | REAL TIME AUCTION | ) |                     |
|           |   | WITH END GAME     | ) |                     |
|           |   |                   | ) |                     |
| Examiner  | : | C. R. Kyle        | ) |                     |
|           |   |                   | ) |                     |

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**REQUEST FOR RECONSIDERATION OF APPEALS DECISION  
UNDER 37 CFR 41.52**

United States Patent and Trademark Office  
P.O. Box 1450  
Alexandria, VA 22313-1450

Dear Sir:

Applicant herewith requests reconsideration of the above-referenced Board of Appeals Decision ("the Decision") under 37 CFR 41.52b. The Decision on appeal entered a new ground of rejection are pursuant to 37 CFR 41.50. With all due respect, the Decision is legally erroneous. Reconsideration of that decision is respectfully requested herein.

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### **Summary and Statement of the Case**

In summary of what follows, the Decision attempts to provide a new exception to subject matter patentability via an unsupported interpretation of the “abstract idea” exception. This is nothing more than a thinly veiled attempt by the Patent Office to resurrect their previously-overruled “business method exception” under a new name.

In fact, this proposed rule is contrary to Supreme Court cases, e.g. *Chakrabarty*, cited herein. The application of a single rigid rule for any kind of patentability seems contrary to the thinking of the Supreme Court, see, is supported by the plethora of Recent Supreme Court cases expressing their view that rigid rules for patentability should not be used in Patent Cases. See *Ksr International Co.v Teleflex Inc*, 550 U. S. \_\_\_\_ (2007).

In rejecting the claims, the Board of Appeals has raised a number of good points regarding claim construction on claims 15, 16, 19, 23, 24 and 27. A continuation application will be filed in due course to include claims of comparable scope to those claims, with amendments made to obviate those claim construction issues. Reconsideration on claims 15, 16, 19, 23, 24 and 27 are hence not requested herein.

Applicant does not request reconsideration of the Prior art based rejections of any of the claims.

However, a new ground of rejection is raised to claims 5-7 and 28-32, as allegedly being unpatentable under 35 USC 101 as being directed to non-statutory subject matter, based on the “abstract idea” exception to patentability. This contention is respectfully traversed, and applicant herewith requests reconsideration of this holding.

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In essence, the Decision seeks to characterize claims 28-32 as "methods of collecting bids and applying rules, an abstract idea that lacks a useful, concrete and tangible result" (Decision, page 20, lines 17-19).

However, the Decision attempts to paraphrase claims 28-32 as nothing but "accept bids, determine who the bidders are, and define rules" (Decision, page 22, lines 9-10). The rejection improperly relies on *In re Schraeder* to state that there is nothing physical about bids per se, and that the regrouping of bids cannot constitute a physical (Decision, page 22, lines 11-12) The rejection therefore again paraphrases these claims as being directed to "no more than the idea of conducting an auction with auction rules and bids", lines 13-14.

However, with all due respect, this contention is factually and legally incorrect.

**I. The Abstract Idea Exception Is Improperly Applied Against These Claims  
And The Conclusions That These Claims Define An Abstract Idea Is Legally  
Incorrect**

The Decision has misapplied the legal concept of abstract idea.

When enacting the 1952 Patent Act, Congress intended the scope of 35 USC 101 to "include anything under the sun that is made by man," See the Legislative History reproduced at S.Rep. No. 1979, 82d Cong., 2d Sess., 5 (1952), reprinted in 1952 U.S.C.C.A.N. 2394, 2399; H.R.Rep. No. 1923, 82d Cong., 2d Sess., 6 (1952), *Diamond v Chakrabarty*, 447 US 303, 101 S. Ct 2204 (1980). The *Chakrabarty* Court held that the only exceptions were laws of nature, natural phenomena, and abstract ideas.

The Decision cites *In re Warmerdam*, 33 F.3d 1354 (Fed Cir 1994) for the proposition that *Chakrabarty* is incorrect, and that Congress did not intend for statutory subject matter to include anything under the sun. To the extent that *Warmerdam* (a Federal Circuit case) tries to overrule *Chakrabarty* (a Supreme Court case), Supreme Court law would clearly control.

The Decision quotes *Diamond v Diehr*, which is not an abstract idea case, but instead stands for the proposition that the mere presence of a physical step cannot transform an unpatentable principle into a patentable process. This case is inapplicable to the present claims, which are not alleged to include a "principle".

Rather, the proper analysis of an abstract idea claim should start with the Supreme Court holding in *Rubber-Tip Pencil Co. v Howard*, 87 US 498 (1874). This case referred to contours of a special kind of pencil. Howard had disclosed the

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contours of that pencil, but not claimed those contours. So, while the idea in the specification was good, that idea had not been reduced to an embodiment that was claimed: the claims were not patentable.

This case has been widely cited for the proposition that an idea is not patentable. In this specific case, the Supreme Court held that even though the idea underlying the pencil was good, the device that the applicant eventually claimed was not new. Accordingly, the presence of a good idea did not make the claim patentable.

*Voigtmann v. Perkinson*, 138 F 56 (C.A. 7, 1905) explained that concept alone is not patentable. The *Voigtmann* holding required concept to be accompanied by mechanical embodiment, since the concept alone was not patentable.

The 1952 Patent act makes clear that processes are also patentable. A post 1952 interpretation of *Voigtmann* still holds -- concept alone is not patentable -- Only claims directed to patentable embodiments are patentable. The claims must be unanticipated and not obvious.

To bring together the holdings of all these cases: the term "abstract idea" was never intended to cover a combination of subject matter such as the present claims that define an auction over a network and finding a highest bid. . An "idea" is the opposite of an "embodiment". An idea is abstract, and is the opposite of concrete and definite. An idea has not been reduced to practice "by novel means or methods so that its utility may be demonstrated" *Trabon Engineering Corp. v Dirkes*, 136 F.2d 24, (C.A.6, 1943). Here, a method is claimed. It is not an abstract idea, but rather a fully-functioning, concrete, definite and complete method.

Ideas are not patentable. Apparatuses and processes that embody those ideas are patentable. Thoughts and algorithms are not patentable. However, claims to a specific process or apparatus that is implemented in accordance with a mathematical algorithm are patentable. *Arrhythmia Research Technology, Inc. v Corazonix Corp.*, 958 F.2d 1053 (Fed Cir 1992).

**II. Conducting An Auction Over A Network And Handling Bids Over A Network (Including Finding A Highest Bid) Is Not An Abstract Idea.**

The Decision incorrectly holds that the claimed process of collection and analysis of bids over a network is an abstract idea.

Only an abstract intellectual process is an idea. Any structure, or application of that idea takes the idea into the realm of the patentable. See cases analyzed above.

Claim 28 defines the interconnected operations of first "conducting an auction over a network" by accepting bids and accepting a highest bid as being the winning bid. Claim 28 further defines that a bid received within a predetermined period of time before an end time of the auction is treated "less favorably than bids received prior to said predetermined period".

Some aspects of this claim are directed to how the bids are treated. However, the claim overall defines a process – the opposite of an idea. This claim requires an auction is conducted over a network. That is not simply an idea, which might be 'wouldn't it be nice if you could treat some bidders differently than others' or some such. These claims define the concrete and definite steps of a process of bidding over a network.

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The claim also requires that a highest bid is established as being the winning bid. Bids obtained near the end of the auction are treated less favorably. However, all of this is done in the context of "conducting an auction over a network by accepting bids for items". Auctioning over a network by accepting bids is itself is a concrete and definite physical process. It requires that the auction be conducted "over a network". It requires the bids for items be accepted. In fact, it even requires "establishing the highest bid for an item has been a winning bid". As such, this claims the basic elements of conducting an Internet based auction – a clearly statutory process, and not an abstract idea. Many people, in fact, carry out the elements of this process every day, when they use "ebay.com".

The rejection characterizes the references to "the network" in these claims as being an "attempt to exalt form over substance in introducing a term that creates the illusion of physicality". Conducting an auction over the internet is very real. Witness ebay and its billion dollar plus business model. This billion dollar business model is certainly not an "illusion".

Claim 28 defines an improvement in the context of an Internet-based auction that is conducted over a network. The auction, over the network, is a real action. This is not form over substance or an attempt to create any kind of illusion, instead, this is improvements in conducting an auction over the Internet- a very real, that is, concrete and definite, (and profitable to Ebay) process.

The statement on page 22 lines 20-22, that networks of auction houses that convey bids are notoriously old, seems wholly irrelevant to the point of whether the

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claim as a whole defines merely an abstract idea. The issue of novelty or obviousness is irrelevant to whether these claims define merely an abstract idea.

Moreover, to the extent that claim 28 defines conducting an auction, conducting it over the Internet, establishing the highest bid, and treating other bids, is certainly an concrete and definite application, and certainly not merely an abstract idea.

Claim 32 is respectfully suggested to represent patentable, and statutory subject matter for analogous reasons. Claim 32 also defines conducting an auction over a network, and establishing the highest bid. Reasons why this claim are patentable are in fact extensively noted above. In addition, claim 32 defines determining identities of bidders, and treating them being from bidders whose identities have not been determined less favorably. Again, this defines steps of a concrete and definite process – not just a disembodied abstract idea. This is an application of an idea to an embodiment. Moreover, the contention that this is an attempt to exalt form over substance is with all due respect, incorrect. Conducting an auction is clearly a physical operation. There is absolutely nothing about conducting an auction over the Internet that is an attempt to exalt form over substance. With all due respect, this rejection is quite simply incorrect.

*In re Schraeder*, 22F.3d 290 (Fed Cir 1994) was cited for the proposition that bids "cannot" constitute a physical change, in effect, or result. However, this misquotes the *Schraeder* decision, and takes it wholly out of context. *Schraeder* was a case where the Federal Circuit was considering whether a mathematical algorithm was being preempted by the claim at issue. In the process of discussing grouping of bids, it was



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argued that the bids were somehow transformed. In this context, the Federal Circuit stated that there was nothing physical about the bids per se, and therefore grouping and regrouping them cannot constitute a physical change, effect, or result. However, the case was not about grouping the bids, not about transmitting them; not about finding the highest one as claimed; rather in the context of determining whether the algorithm was preempted by the claim. In *Schrader*, the only physical effect was entering the bids into a record. The Federal Circuit held that entering bids into a record was implicit in any application of any mathematical algorithm. The holding in *Schrader* was certainly not that bids were somehow nonstatutory, or that they could never be patented. Moreover, the holding, to the extent that it relates to grouping of bids, has nothing to do with the claim language, which recites sending bids over a network, and establishing a highest bid. *Schrader* is quite simply inapplicable.

Moreover, consider the ludicry of any contrary interpretation of *Schraeder*. If internet bidding is an abstract idea per se, as the Decision appears to hold, then internet bidding becomes a completely unpatentable field of art. Ebay's whole billion dollar plus business becomes a completely unpatentable field. Bids would not be physical, so manipulating the bids in any way would not be deserving of patent protection. This could not have been the Federal Circuit's intent from the language of that case.

Since the Decision quotes *Diamond v. Diehr*, 450 U.S. 175(1981), its holding is certainly relevant. According to *Diehr* at 185, a principle in the abstract cannot be patented, a new mineral cannot be patented, the law of gravity cannot be patented. An algorithm can not be patented, and a scientific concept or idea can not be the subject of

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a valid patent. *Diehr* at 195. *Diehr* stated that this doctrine was "regularly invoked to deny patents to invention, consisting primarily of mathematical formula or methods of computation,... mental operation or mathematical computation. Finally, *Diehr* described ideas as being not the kind of discoveries that the statute was enacted to protect. However, *Diehr* clearly states that as long as the claims describe a specific implication of applicants discovery, patentable subject matter is defined.

**III. Concrete Useful And Tangible Result, And Transformation Of  
Something To A Different State Or Thing Are Safe Havens, Not Exclusive Tests,  
And The Cases Never Intended For These To Be Exclusive Tests**

The Decision states that the claims provide no useful concrete and tangible results, since they do not result in transfer of property at an actual auction. However, simply the act of conducting an auction over a network is an useful concrete and tangible result. The applicable rules have never required that a useful concrete and tangible result requires reciting the actual transfer of property. The claims here recited conducting an auction and determining the highest bidder. This is a very real process.

Applicant believes that the claim does in fact define concrete, useful and tangible results. However, in any case, reliance on the necessity for a concrete, useful and tangible result in order for a claim to be patentable under 35 USC 101 has never been the holding of any case. Certainly no case has ever held, as apparently required by the Decision, that a claim which does not define a concrete, useful and tangible result is necessarily an abstract idea.

The two oft-cited tests for subject matter patentability: 1) concrete useful and

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tangible result, and 2) transformation of something to a different state or thing are misquoted as being requirements, when in fact they are safe havens. These tests are apparently taken from the two Federal Circuit cases: *State Street Bank and Trust v Signature Financial Group Inc.*, 149 F.3d 1368 (Fed Cir 1998) and *AT&T Corp. v Excel Communications Inc.*, 172 F 3d 1352 (Fed Cir 1999). However, these holdings describe non exclusive tests for subject matter patentability. They were not intended to be the ONLY allowable tests for subject matter patentability.

*State Street Bank* related to a data processing system forming an investment configuration. The *State Street Bank* decision began by explaining that Congress's intent was not to place any restrictions on the subject matter for which a patent can be obtained, *State Street* at 1373. The court analyzed the exceptions: laws of nature, natural phenomena and abstract ideas. *State Street* characterized a mathematical algorithm as a form of abstract idea. *Id.* In doing so, *State Street* explained that an unpatentable mathematical algorithm is "disembodied concepts or truths". They explained that the mathematical algorithm becomes patentable when the data is transformed (*Id.*) or when the data corresponds to a "useful, concrete or tangible thing". *Id.* And in fact, the holding was exactly that -- that transformation of data by a machine constitutes a practical application of a mathematical algorithm. *State Street* never said and never intended that this test be considered as the ONLY way to determine that something was practical application of a mathematical algorithm.

*State Street*, therefore held that something was not merely a mathematical algorithm if it produced a useful concrete and tangible result, *State Street* at 1374, 1375 (stating that a machine that is programmed with software that produces a useful

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concrete and tangible result is statutory subject matter even if the useful result is expressed in numbers).

Nowhere did *State Street* ever hold that something was non statutory if it did NOT produce a useful concrete and tangible result.

That is, nowhere did *State Street* ever hold that the useful concrete and tangible result test was an exclusive test.

In fact, the holding clearly acknowledged Congress's intent for subject matter patentability to have a very broad interpretation. The *State Street* court also overruled the so-called business method exception, stating instead that if patent claims are too broad, they should be the basis of a rejection under section 102, 103 and 112, *State Street* at 1377. *State Street* also held that "unpatentable mathematical algorithms are identifiable by showing that they are merely abstract ideas constituting disembodied concepts or truths that are not useful". *State Street* at 1373.

The *AT&T* case similarly does not purport to proclaim exclusive tests. *AT&T* again emphasizes that Congress intended for section 101 to be construed broadly, (*AT&T* at 1355), that a mathematical formula alone is unpatentable (*AT&T* at 1356) and that section 101 needs to be "responsive to the needs of the modern world" *Id.* In fact, *AT&T* read the *State Street* holding as allowing claiming of a mathematical algorithm if the claimed invention as a whole "is applied in a useful manner" *AT&T* at 1357.

*AT&T* held that transformation of something to a different state or thing was another test for subject matter patentability, since it proved that the claim was useful.

Nowhere did *AT&T* ever hold that something was non statutory if it did NOT transform something to a different state or thing.

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That is, nowhere did *AT&T* ever hold that the transformation test was an exclusive test.

The *AT&T* court also rejected the concept of physical elements and the so-called Freeman-Walter-Abele test, see generally *AT&T* at 1359.

To summarize the above, the Federal Circuit has clearly held that neither of these tests (the concrete useful tangible, and the transformation test) should be exclusive tests for subject matter patentability. Applicant knows of no court that has held that failure to meet the concrete/ useful/tangible bar qualifies something as an abstract idea. To the extent the Decision says this, it is incorrect under the law.

The above-cited two tests define only a very small subject matter of that which is patentable. This is clear, since "anything under the sun that is made by man" is patentable, unless it is a law of nature, physical phenomena or abstract idea. And it is also clear that the test to determine whether something is patentable subject matter should be very broad, not the very narrow tests suggested. The two tests would clearly exclude certain kinds of new technology, something which certainly could not have been intended by Congress' statements quoted above.

Patents must be able to protect new technology. New and previously unconsidered forms are continuously being patented. This in fact was the very basis of the decision in *Chakrabarty*, which is somehow distinguished in at least one concurring opinion. *Chakrabarty* dealt with the concept of new technologies. The court's holding in *Chakrabarty*, was that whenever mankind invents something, it should be patentable.

Finally, the recent dissent in *LabCorp v. Metabolite Laboratories*, 548 U.S. \_\_\_\_ (2006) casts doubt on these tests, in favor of a more analytical approach.

**IV. Does The Claimed Subject Matter Require That The Product Or Process Has More Than A Scintilla Of Interaction With The Real World In A Specific Way**

Applicant herewith postulates a new test for patentability which is more consistent with Congress' intent.

Applicant's proposed test for patentability is " does the claimed subject matter require that the product or process has more than a scintilla of interaction with the real world in a specific way". This test is consistent with *State Street Bank*, see section 2, herein. This test is also consistent with Supreme Court law and the intent of Congress. Since the claim requires interaction with the real world, there cannot be preemption of an algorithm. The law of nature existed on its own. In its natural state, the law of nature could not have defined interaction with the real world.

Since the test requires interaction with the physical world, anything that meets the test is more than an abstract idea -- it has actually been put into a form that makes it an embodiment, rather than an idea.

Moreover, by the very nature of its interaction with the real world, others can use the product or process in a way that interacts with the real world in a different way. This test therefore captures the nature of preemption, and prevents the claim from preempting a law of nature or physical phenomena and in a way that would prevent others from using that same law of nature or physical phenomena.

In a very much analogous way, this test also captures the nature of whether something is an "abstract idea". The test requires that the claimed subject matter interacts with the real world in a specific way. The very nature of an idea prevents the

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idea from interacting with the real world in *any* way.

Applying this test to the claims, one sees that all of the claims have substantial interaction with the real world, and clearly perform a real world function.

Claim 28, for example, carries out an auction over a network, accepts bids, and establishes a high bid. This occurs in the real world, and hence since this takes an action in the real world, and is not merely an abstract idea.

Claim 32 similarly carries out an auction over a network, accepts bids, and establishes a high bid. This is not an abstract idea, since it interacts with the real world.

#### **V. Congress Intended For Subject Matter Patentability To Receive A Very Wide Scope**

Finally, as a policy matter, applicant notes that Congress intended the scope of 35 USC 101 to be very broad. See above -- When enacting the 1952 Patent Act, Congress intended the scope of 35 USC 101 to "include anything under the sun that is made by man," See the Legislative History reproduced at S.Rep. No. 1979, 82d Cong., 2d Sess., 5 (1952), reprinted in 1952 U.S.C.C.A.N. 2394, 2399; H.R.Rep. No. 1923, 82d Cong., 2d Sess., 6 (1952), *Diamond v Chakrabarty*, 447 US 303, 101 S. Ct 2204 (1980). The Court explained that the patent system is directed to the inventive works of mankind, and is not otherwise limited: "In choosing such expansive terms as

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'manufacture' and 'composition of matter,' modified by the comprehensive 'any,' Congress plainly contemplated that the patent laws would be given wide scope." 447 U.S. at 308, 100 S.Ct. 2204, 65 L.Ed.2d 144, 206 USPQ at 197. (This section is quoting from *Pioneer Hi-Bred Intern., Inc. v. J.E.M. Ag Supply, Inc.*, 200 F.3d 1374, Fed Cir 2000).

This legislative history has made quite clear why Congress intended for statutory subject matter to be expansive: so that all the inventive works of mankind could be adequately protected. Congress properly recognized that it is virtually impossible to predict with any certainty where innovation will eventually lead. Congress intended for all results of innovation to be proper subjects of patentability. At the time of the 1952 Patent act, for example, it is certainly doubtful that Congress contemplated patentability of engineered bacteria. However, the *Chakrabarty* Court had no trouble expanding Congress' intent to this kind of subject matter.

Similarly, the intent of congress should not be presumed to intend to exclude certain areas of innovation – such as network based bidding.

Therefore, the legislative history and Supreme Court interpretation of the 1952 Patent act makes it clear that Congress intended for patentability of subject matter under section 101 to have a very broad scope.

Moreover, the meaning of a "broad scope" under 35 usc 101 has been clearly defined by the courts and subject matter patentability should also have a correspondingly broad scope.

Congress also intended the "utility" requirement of section 101 to have a broad scope, and the Courts have quite clearly spoken on what the term "broad scope" means



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in the context of utility. An invention is "useful" under section 101 if it is capable of providing some identifiable benefit. See *Brenner v. Manson*, 383 U.S. 519, 534, 86 S.Ct. 1033, 16 L.Ed.2d 69 (1966); *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1571 (Fed.Cir.1992) ("To violate § 101, the claimed device must be totally incapable of achieving a useful result"); *Fuller v. Berger*, 120 F. 274, 275 (7th Cir.1903) (test for utility is whether invention "is incapable of serving any beneficial end").

To summarize, the courts have interpreted the utility requirement of 35 USC 101 to require only a scintilla of utility – any utility, no matter how slight. Phrases like “any beneficial end...” and “totally incapable..” demonstrate the broad scope of this utility requirement.

The subject matter patentability test is within the same statutory section: 35 USC 101. Hence, the subject matter patentability test should be interpreted using a similar broad scope. It is totally inconsistent, therefore, for the subject matter patentability requirement of section 101 to receive the much narrower interpretation which is suggested by the Guidelines and by the Decision.

The Supreme Court has made it clear that anything is patentable unless it is a law of nature, natural phenomena or abstract idea. A claim that preempts a mathematical algorithm is not patentable, since this would in effect be patenting something that was not made by man, but rather was discovered by man. But beyond these perimeters, subject matter patentability should have a very broad scope, to effect Congress's clear intent.

In summary, the rejection based on ‘abstract idea’ is completely unsupported by

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law.

For each and every one of these reasons, it is respectfully requested and suggested that the new ground of rejection is in error. Applicants respectfully request that this ground of rejection be reconsidered and reversed, or if not, that the Decision be made final for purposes of Judicial Review.

Respectfully submitted,

Dated: 6/12/07 \_\_\_\_\_

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